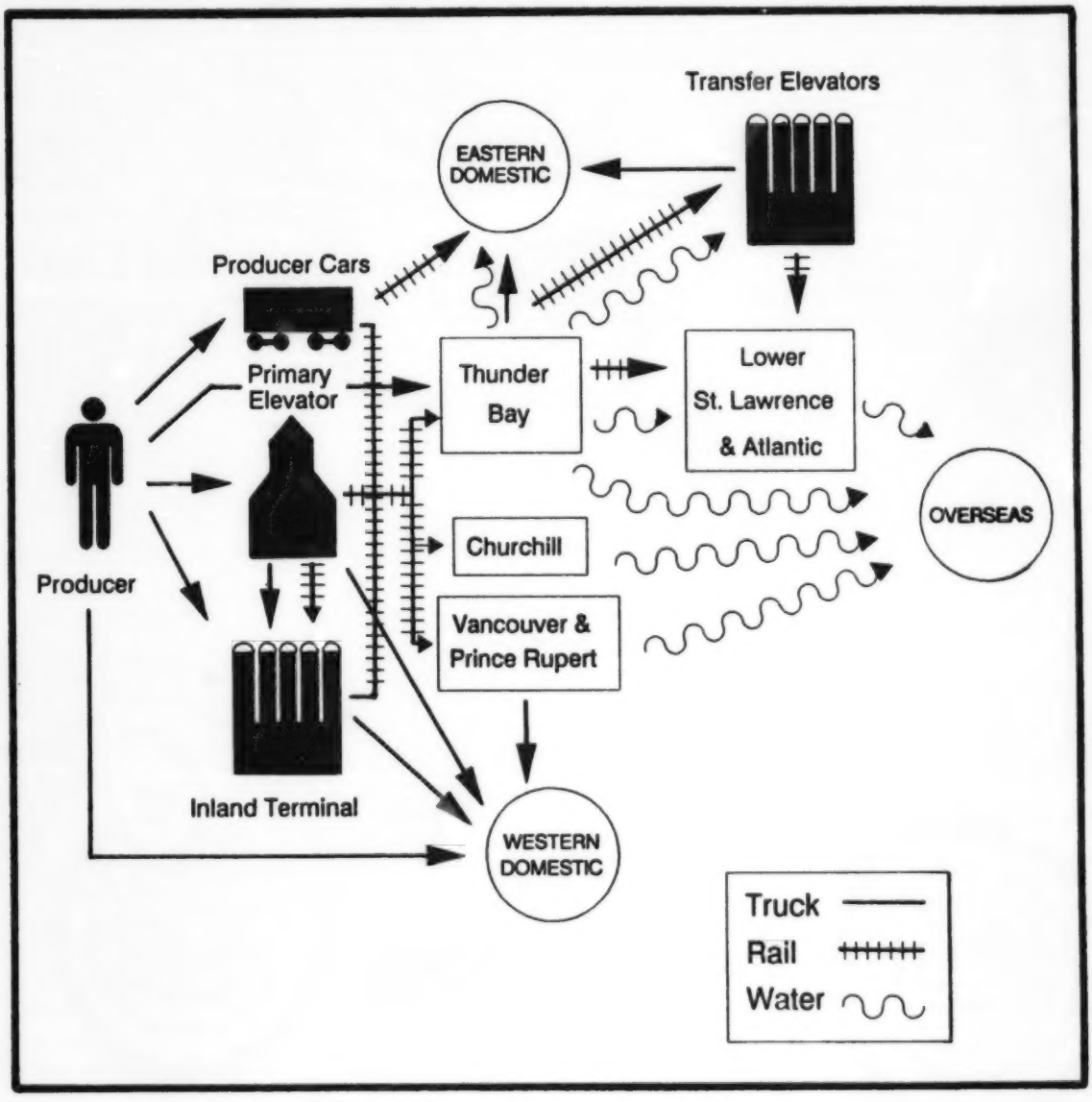
Government of Saskatchewan

GRAIN TRANSPORTATION FACTS



GRAIN TRANSPORTATION FACTS

SASKATCHEWAN HIGHWAYS
AND TRANSPORTATION

JANUARY 1992

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I

INTRODUCTION

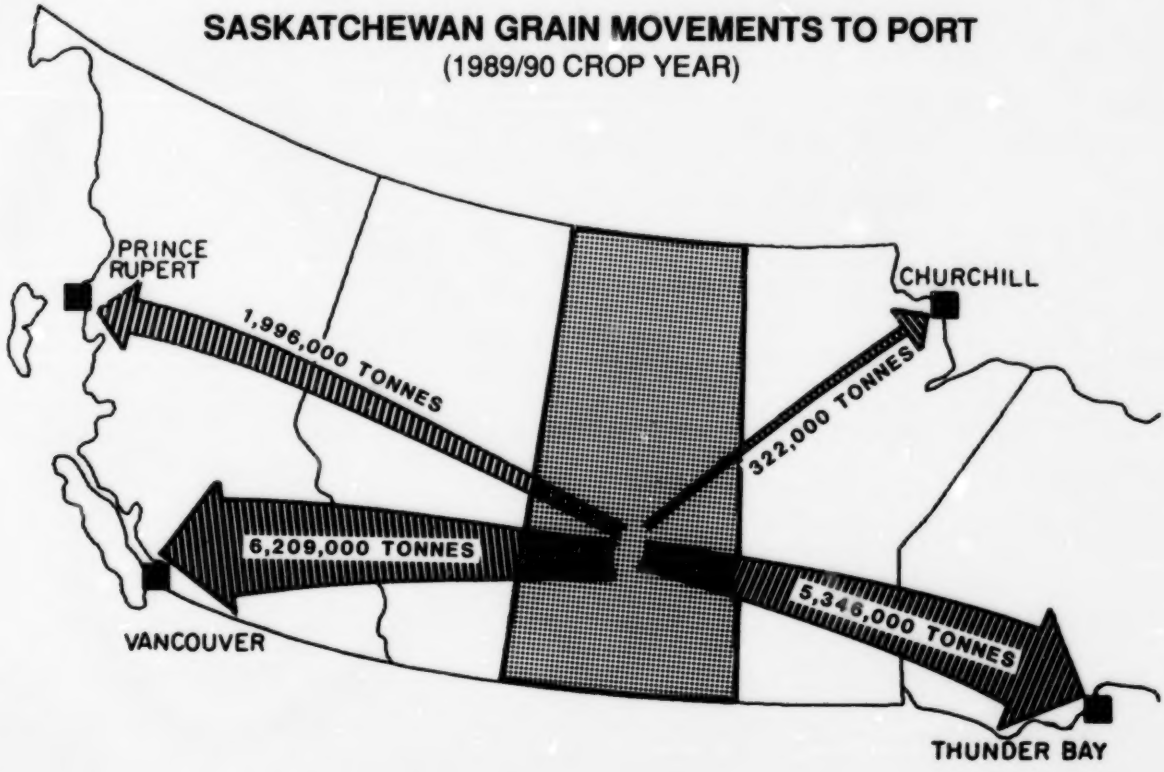
Background

Saskatchewan is Canada's leading producer of grains, accounting for about 55% of total grain exports and half of total grain producers in the Prairie provinces. Saskatchewan exports more than 80% of its total agricultural production, with grain exports averaging 15.5 million tonnes annually. In recent years this number has approched or exceeded 18 million tonnes annually. More than 8 million tonnes of Saskatchewan shipments originate on grain-dependent rail branch lines.

Saskatchewan's grain is exported through four ports. Figures for the 1989/90 crop year, the most recent year for which detailed information is available, show that approximately 60% of grain exports are handled at the two west coast ports, about 38% at Thunder Bay, and 2% at the Port of Churchill. West coast exports have grown in recent years due to increased demand for Canadian grain in Pacific Rim markets.

The grain handling and transportation system plays an important role in marketing Saskatchewan grain, due to the distance of our producers from deep sea ports and the need to minimize transportation costs to maintain their competitiveness on world markets. Rail transportation is the primary mode for bulk shipments of grain to export markets.

The federal government is reviewing several aspects of Canada's grain transportation system including: the method of payment of the Crow Benefit, efficiency measures, pooling of seaway costs, minimum compensatory rates for canola products, and rural impacts. Public meetings are being held across the prairies to discuss these issues.



There are several reasons the federal government has decided to review these issues now. These include:

1.Lobbying by interest groups and some provinces to redirect transportation subsidies to producers, to provide a catalyst for agricultural diversification and value-added activities.

2.A potential GATT agreement on reduction of agricultural subsidies. The WGTA was designated as an internal support measure in the federal government's 1990 offer to reduce agricultural subsidies at the Uruguay Round of the GATT. Reduction of federal grain transportation subsidies could be considered if an agreement is reached on agricultural subsidies at the GATT.

3.A desire to reduce the federal deficit and to improve the efficiency of the grain handling transportation system.

Purpose

The purpose of this report is to inform Saskatchewan residents and to assist them in preparing for the federal public meetings on grain transportation issues.

What's at Stake For Saskatchewan

The changes being proposed by the federal government could have far reaching effects on rural Saskatchewan.

Branchline abandonment and elevator consolidation could occur at a very rapid pace. It is reasonable to expect the loss of 4000 km of branchline by the year 2000.

With the branchline system removed, railway costs will go down and, therefore, grain freight rates should reduce by perhaps 3¢ to 4¢ per bushel. However, railways have already indicated that a method of payment change must be tied to an elimination of the regulated freight rate system. Based on the experience of other Saskatchewan industries, grain freight rates set by the railways could go up by 25¢ per bushel in a deregulated enviornment.

We now have laws which protect farmers against high freight rates during periods of high inflation and low grain prices. The federal government is proposing to remove these.

From an agricultural perspective, changes to the method of payment could see some improvements for the livestock and agricultural processing sector. These benefits will be more than offset by losses to grain producers.

Land prices, already depressed, could fall further if the Crow Benefit is eliminated.

Costs will be transferred from the federal government and the railways to producers, communities losing rail service, and to provincial and municipal road authorities.

Approximately 9700 km, or almost 40%, of our rural highway system have a very thin pavement surface that provides a mud and dust free surface that were not designed to carry large volumes of truck traffic because grain had traditionally moved on the branchline system. Many of these highways and municipal roads will require upgrading in areas where branchline abandonment occurs. If 4000 km of the branchline system were lost, highway expenditures in Saskatchewan would likely increase by more than $60 million annually. Municipalities would also face large increases.

Saskatchewan cannot afford these costs. Much of the rural highway system would probably be turned back to gravel. Maintenance of both municipal roads and highway routes would suffer.

Saskatchewan's Bottom Line

Changes to federal agricultural programs and legislation should be guided by the following principles to ensure that the benefits derived from changes are fairly distributed.

1.Grain transportation subsidies should continue to be paid to the railways.

2.The distance-related freight rate structure should be retained, to maintain the principle of equal rates for equal distance.

3.Rail transportation of grain must continue to be regulated.

4.Reduction in overall grain handling and transportation costs must consider all costs from the farm to market, including added farm trucking costs, added road maintenance costs, and road upgrading costs.

5.Returns to producers should be maximized.

6.Grain transportation is a national responsibility. However, producers must have an opportunity to influence decisions affecting their local transportation system.

7.Commitments made by the federal government in the Western Grain Transportation Act and the National Transportation Act must be honoured.

Report Organization

The report reviews each of the five issues identified by the federal government in terms of the present system or legislation, proposed changes, and the impact of the proposed changes. The report also identifies opportunities for improvement that Saskatchewan believes exist and are realistic.

The report is organized into 10 chapters as follows:

Chapter II, describes the regulatory system as it exists today for the transportation of grain and the changes that have been proposed by the federal government.

Chapter III, describes the present grain handling and transportation system and its costs and the changes being proposed by the federal government.

Chapter IV, examines the potential impact of the proposed changes to the regulatory system and the physical plant on the grain producer and the Saskatchewan taxpayer.

Chapter V, describes several options for paying the Crow Benefit put forward by the federal government and examines the potential impacts of the proposals.

Chapter VI, identifies several opportunities for reducing costs on the branchline and mainline rail systems, rail regulations, and ports.

Chapter VII, examines proposed changes to price pooling by the Canadian Wheat Board.

Chapter VIII, examines proposed changes to minimum compensatory rates for canola products.

Chapter IX, examines potential impact of the proposals on rural communities.

Chapter X, presents a summary of the report.

II

THE REGULATORY SYSTEM

Introduction

Railway grain freight rates have been regulated for nearly a century. The Crow's Nest Freight Rate Act of 1897 established the principle of equal rates for equal distance. The Crow Rate fixed the producer's freight rate at approximately 13.5 cents/bushel for a 1600 km movement to port. By the early 1960s the railways had started to lose money on the movement of grain. Federal and provincial governments provided subsidies through adhoc programs to offset losses. These subsidies included: upgrading of branchlines, hopper car purchases, and direct branchline subsidies.

The Western Grain Transportation Act (WGTA)

The WGTA, passed in 1983, was designed to address these issues by regulating rates of most export grains and guaranteeing that railway revenue through freight rates be compensatory (an amount currently exceeding $1 billion). The principle of distance related rates was continued under the WGTA. Passage of the WGTA was achieved through extensive consultations with the railway companies, grain industry, producers, producer organizations, and provincial governments. Although the new legislation resulted in significant increases in freight rates, many farm organizations supported the change because they believed that they would be receiving long term benefits in return. Chief among these were the following:

1. A modern and reliable railway system;

2. Protection from excessive freight rates;

3. An ongoing federal government commitment to fund grain transportation through the Crow Benefit;

4. A freight rate scale which was distance related and based on average railways costs; and

5. A legislative commitment to ensure freight rates would continue to be cost based.

Railway Costs and Rates

Railway costs for grain movements are split into three components. The largest of these is the volume related or operating costs currently amounting to $819 million. Line related costs account for a further $91 million for branchline infrastructure costs. The third component is known as the contribution to the fixed costs incurred by the railways for grain transportation and is fixed by legislation at 20% of the line related costs or $164 million. Together the three components total almost $1.1 billion annually or approximately 88 cents/bushel.

Under the WGTA, the federal government currently pays the railways about two-thirds, or $721 million annually, of the cost of moving grain to ports. The federal payment is known as the ***Crow Benefit***. Saskatchewan's share of the Crow Benefit has averaged over 55 %, or $400 million annually.

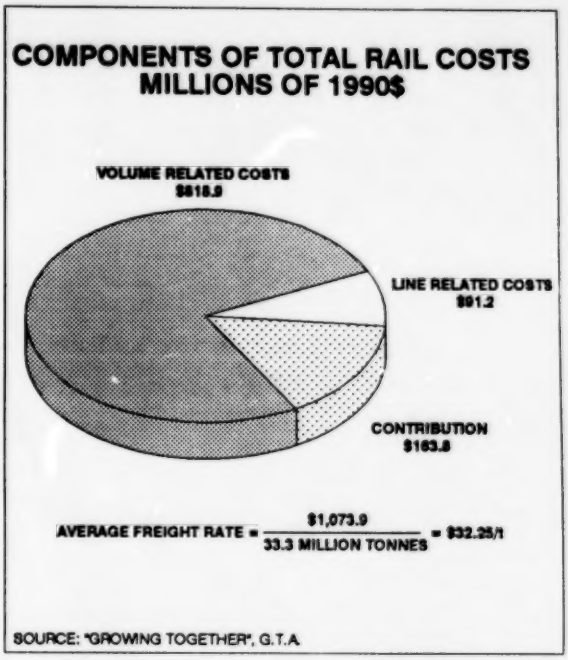
The remaining one-third of the rail costs is paid by producers in their freight bill. The average producer freight rate is now 30 cents/bushel. Freight rates for grain increased by almost 70% from 13 cents/bushel to 22 cents/bushel after the passage of the WGTA and have increased by an average 5% per year thereafter due to the effects of inflation and increasing export volumes.

It is estimated that average producer freight rates could increase to more than 53 cents/bushel by 1997/98. The federal contribution will decline to 56 cents/bushel from 58 cents/bushel during the same period. This will provide an incentive to producers to improve the efficiency of the grain handling and transportation system, to control future freight rate increases.

Since 1984, the railways have been capturing the benefits of the WGTA. They have not suffered the effects of the international grain wars; they have been paid their variable costs plus 20%. Producers have seen the evolution of a secure delivery system. However, if proposals to accelerate branchline abandonments suggested in various federal studies are implemented, producers alone will have lost much of the long term benefits they had secured with the passage of the WGTA.

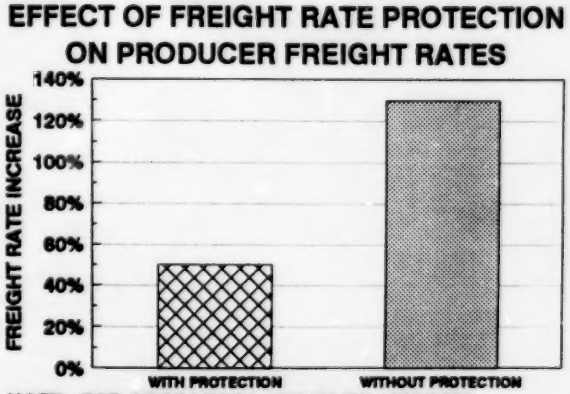
Shipper Share Limitation

The shipper share limitation is a ***safety net feature*** that prevents rail freight costs from exceeding 10 % of the weighted average price of the six major export grains. This provision will be important to producers during periods of low grain prices as the federal government is responsible for rail freight cost increases above this level.



Inflation Sharing Provision

The WGTA also includes a provision limiting the amount of any inflationary increase which the producer must absorb in his freight rate to 6 % annually. ***The producer must absorb this increase on the total freight rate, not just his portion.*** The federal government must pay any rate increases above this level. This provision will be important should double digit inflation return to Canada.



Proposed Changes

Tne federal government is proposing several changes to the current legislation that would have an impact on the producers' freight rates. These include:

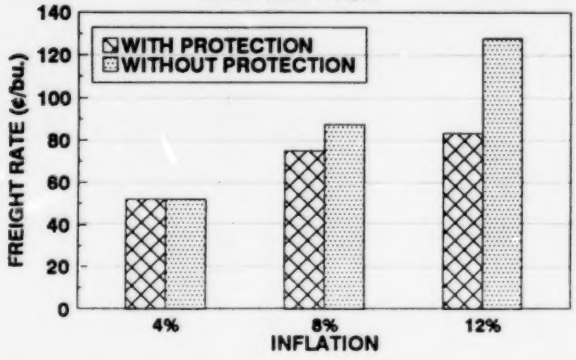
1.Increasing the use of incentive rates;

2.Eliminating the protection from high freight rates which farmers currently enjoy during periods of low grain prices or high inflation (shipper share limitation and inflation sharing provision); and,

3.Moving away from cost based freight rates;

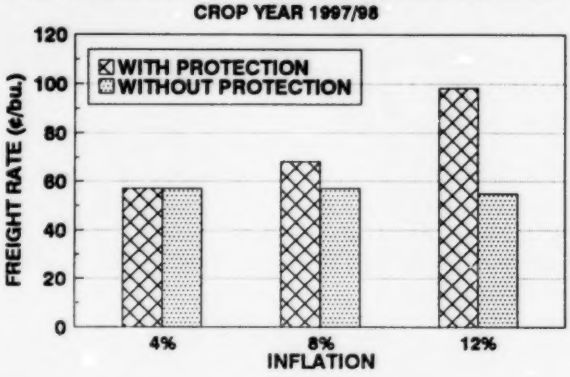
EFFECT OF ELIMINATING INFLATION PROTECTION PROVISIONS ON PRODUCERS

CROP YEAR 1997/98



EFFECT OF ELIMINATING INFLATION PROTECTION ON FEDERAL GOVERNMENT

CROP YEAR 1997/98



III

THE GRAIN HANDLING AND TRANSPORTATION SYSTEM

Introduction

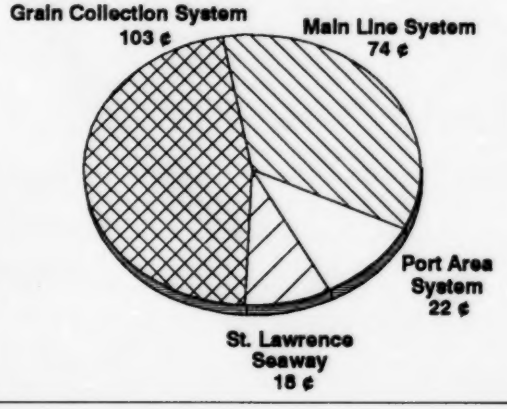
The transportation and handling of grain is vitally important to the success of the agricultural economy in Saskatchewan. Before any ocean going vessel delivers its cargo of Saskatchewan grain to a country of export, our grain handling and transportation system must move the producers' wheat, barley or other grain product over 1600 km from a storage bin on a Saskatchewan farm to a ship berthed at one of Canada's ports. No other jurisdiction is as disadvantaged by geography.

The system is made up of four components. They are the grain collection system, the main line rail system, the port area system, and the St. Lawrence Seaway system.

This chapter reviews each component and its cost.

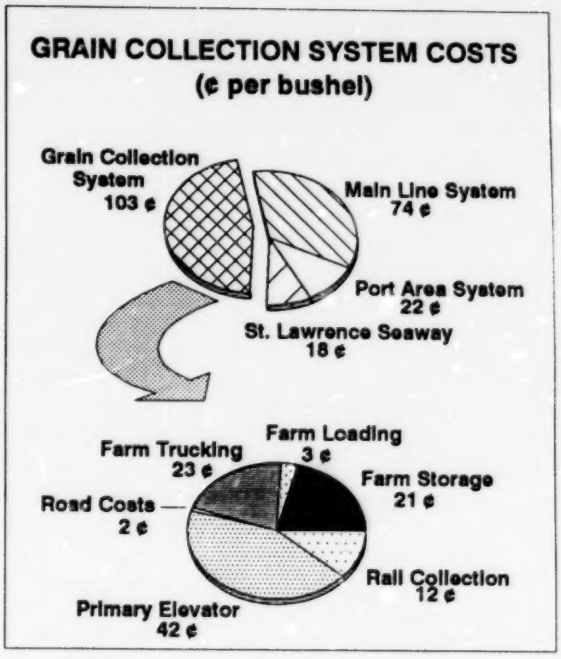
GRAIN HANDLING & TRANSPORTATION SYSTEM COSTS (¢ PER BUSHEL)

TOTAL COST = 217¢



Grain Collection System

The first stage in the process of moving grain to export is the grain collection system. This involves receiving, storing, grading, handling, and transporting the grain by truck and rail to central marshalling yards where solid trains of grain can be formed for movement to port. The cost of this component is about $1 per bushel or approximately 50% of the grain handling and transportation cost.


GRAIN COLLECTION SYSTEM COSTS
(¢ per bushel)
Grain Collection System 103 ¢
Main Line System 74 ¢
Port Area System 22 ¢
St. Lawrence Seaway 18 ¢
Farm Loading 3 ¢
Farm Trucking 23 ¢
Farm Storage 21 ¢
Road Costs 2 ¢
Rail Collection 12 ¢
Primary Elevator 42 ¢

1. Farm Storage

A typical farm has total storage capacity equal to an average year's production. Since specific grades and species are stored in each bin and may be only partially full, the effective storage space is considered to be closer to 80% of an average year's production.

Substantial investments have been made over the past twenty-five years resulting in depreciated wooden storage bins being replaced with larger, more efficient 2000 to 3000 bushel steel storage bins. Storage for greater than average crops has been accommodated by several innovative concepts including combinations of hay bales, plywood sheets, tarps, the use of quansets or uncovered storage.

During harvest, the primary elevator system provides the additional storage requirements not met by farm storage.

At current day prices, the annual cost of farm storage, including maintenance, is approximately 21 cents/bushel.

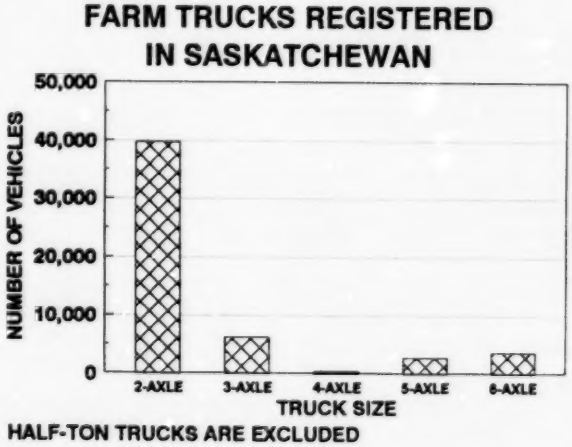
2. Loading

Farm grain augers vary in size from 6 inches to 10 inches and larger in diameter. An average Saskatchewan farmer could be expected to own a 7 inch diameter auger some 39 feet in length with a capacity of 1650 bushels per hour. The cost of loading grain, excluding labour, is about 3 cents/bushel.

3. Trucking

The farm trucking fleet in Saskatchewan is comprised mainly of 2 and 3 axle grain trucks and to a lesser extent, 4, 5 and 6 axle trucks. The size of the truck will be somewhat dependent on the distance that a farmer must haul his grain to a primary elevator. The most common truck is the two axle vehicle.

The predominance of the 2 axle farm truck is related to the current average haul distance which in Saskatchewan is approximately 15 km. However, the trend in recent years is for producers to purchase 3 axle trucks instead of the smaller 2 axle vehicles and in some cases to use commercial truckers to haul their grain to primary elevators. This shift away from the use of the traditional 2 axle truck is due in part to increased hauling distances brought about by elevator and farm consolidation as well as branch line abandonment.



Farm trucking costs will vary significantly from one producer to another because they are influenced by factors such as truck size and age, grain volume, and length of haul. The cost estimates in this paper are based on assumptions that reflect the typical average grain farm in Saskatchewan. Based on these assumptions a producer that operates an older 2 axle truck will spend 21 cents per bushel hauling his grain to a primary elevator. An older 3 axle truck will cost the same farmer 25 cents/bushel.

Commercial grain truck rates also vary from one location to another and are influenced by grain volumes, length of haul and loading and unloading time. A typical farmer that hires a commercial carrier will pay about 17 cents per bushel for haul distances of up to 65 km. This increases to about 22 cents per bushel for haul distances of 112 km. Beyond this distance commercial truck rates are approximately 0.14 cents/bushel km on primary highways and 0.16 cents/bushel km on secondary highways. The difference is related to the larger payload that is possible on the primary system.

4. Roads

Saskatchewan has the most extensive road system of any province in Canada. There are currently 160 000 km of rural road and 25500 km of provincial highway in Saskatchewan. Despite its size, the system is relatively small when compared to the vast region which it serves.

The major road surface types typically affected by branchline abandonment and elevator consolidation include:

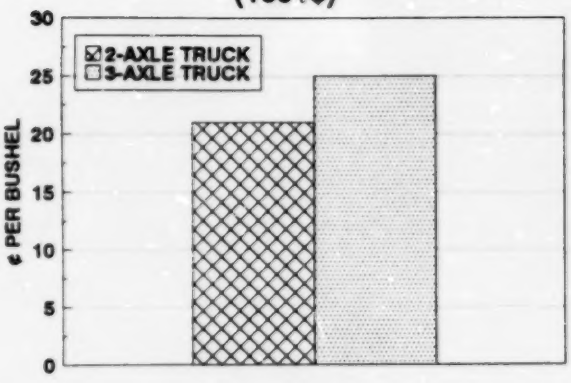
1. Conventional asphalt concrete pavements;
2. Thin membrane pavements; and,
3. Gravel surfaced roads

Thin membrane pavements account for approximately 40% of the provincial highway system and 10% of the rural road system. The standard was adopted in the 1950s as an economical means of getting rural residents out of the dust and mud associated with gravel roads. Despite the fact that this type of road often paralleled the branchline system, it performed adequately for years because grain was moved on the branchlines and traffic volumes were relatively low.

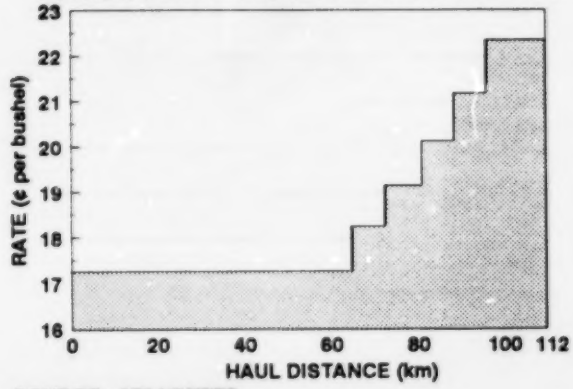
Thin membrane and gravel surfaced roads are the surface types that most frequently require upgrading due to increased truck traffic. Studies carried out by both the province and the federal government have shown that the performance of the thin membrane and gravel surfaced roads is dependent upon truck traffic, climate, and subgrade conditions. These roads can perform well for many years with regular maintenance if the climate and soil remain dry and truck volumes are relatively low. They can fail after as little as one truck pass after a lengthy period of wet weather.

One-third of the highway system is surfaced with a conventional pavement structure designed to accommodate large volumes of truck traffic. Large increases in truck traffic will not normally cause serious failures, although service life will be reduced.

FARM TRUCKING COSTS
(1991$)

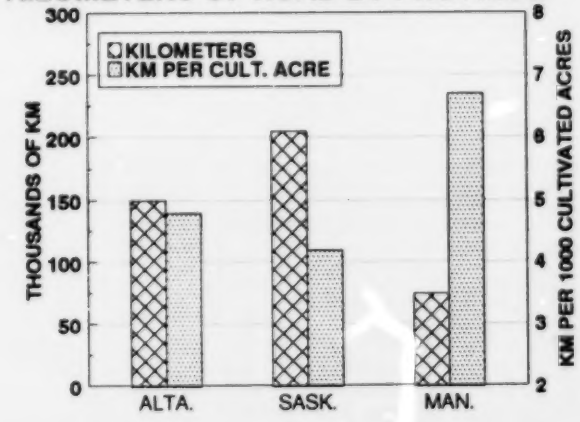


RATES FOR COMMERCIAL HAULERS



SOURCE: ADI LIMITED

KILOMETERS OF ROAD BY PROVINCE



Construction costs vary from $25,000/km for rural gravel roads to almost $400,000/km for a conventional paved highway.

The current cost of the road infrastructure on a system wide basis for the movement of grain from farm to elevator is approximately 2 cents/bushel.

5. Primary Elevators

At the primary elevator grain is purchased from producers, weighed and assigned a grade, then stored by species and grades. When there are sufficient quantities and a call for a specific type of grain, the elevator facility is used to load rail cars.

The primary elevator also provides temporary storage capacity to producers, particularly during the harvest season, and provides a substantial number of services to farmers such as moisture and protein testing services and serves as an outlet for fertilizers and chemicals.

The actual costs for a specific elevator will vary with many factors including type, age and throughput. However, on average, elevation charges are 42.5 cents/bushel comprised of:

· 22.5 cents/bushel for receiving, elevating and loading grain;

· 6.5 cents/bushel for dockage; and,

· 13.5 cents/bushel for storage from the time it is delivered to the elevator until the time it arrives at port.

Elevator Consolidation

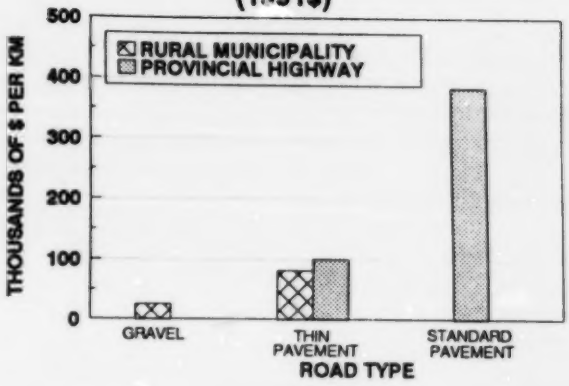
The number of primary elevators in Saskatchewan have declined from more than 2,500 in 1970 to about 850 today.

The elevator consolidation process is closely linked to branchline rationalization. Elevator consolidation strategies are based on factors such as:

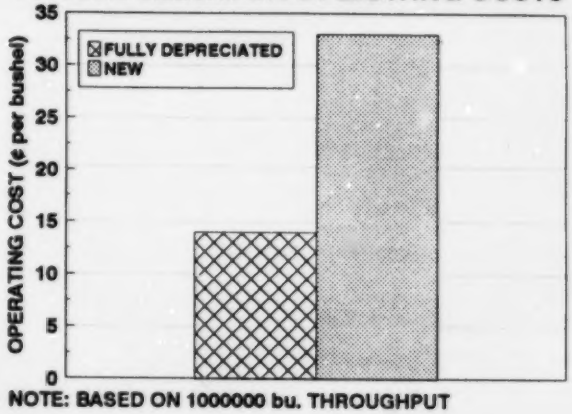
·The probability of the rail line operating long enough to recover the elevator investment. This depends on the projected volume of grain shipments and delivery points on the line, sufficient grain traffic to negotiate reduced freight rates, frequency of rail service, and car loading limitations.

·The number of alternative delivery points accessible within a reasonable transport distance, and the life expectancy of the competitors' facilities in the region.

AVERAGE ROAD CONSTRUCTION COSTS (1991$)

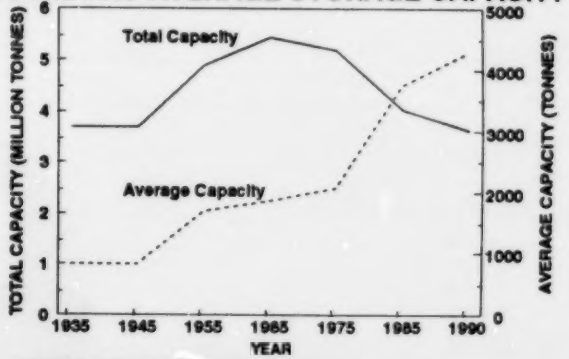


TYPICAL ELEVATOR OPERATING COSTS



NOTE: BASED ON 1000000 bu. THROUGHPUT

PRIMARY ELEVATORS IN SASKATCHEWAN TOTAL AND AVERAGE STORAGE CAPACITY



SOURCE: CANADIAN GRAIN COMMISSION

·The productive capacity of the area within the elevator's radius of influence.

·Economies of scale and the ability to blend for grade improvement.

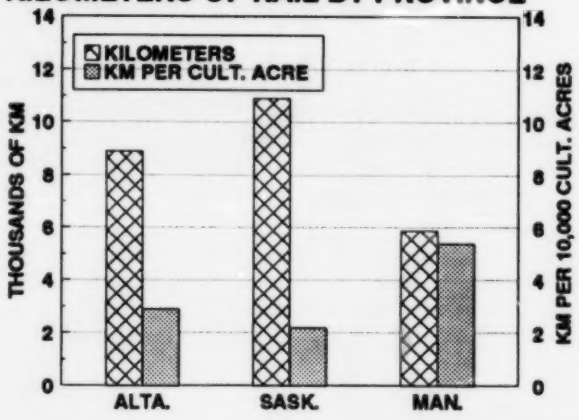
6. Rail Collection

Rail collection, as with any collection and distribution component of a transportation system, is the highest cost part of the railway system. Grain is collected from primary elevators located on a system of 11000 kilometres of track. The grain dependent branch line system, the rail line system that exists almost exclusively for grain, comprises 5700 kilometres of the system.

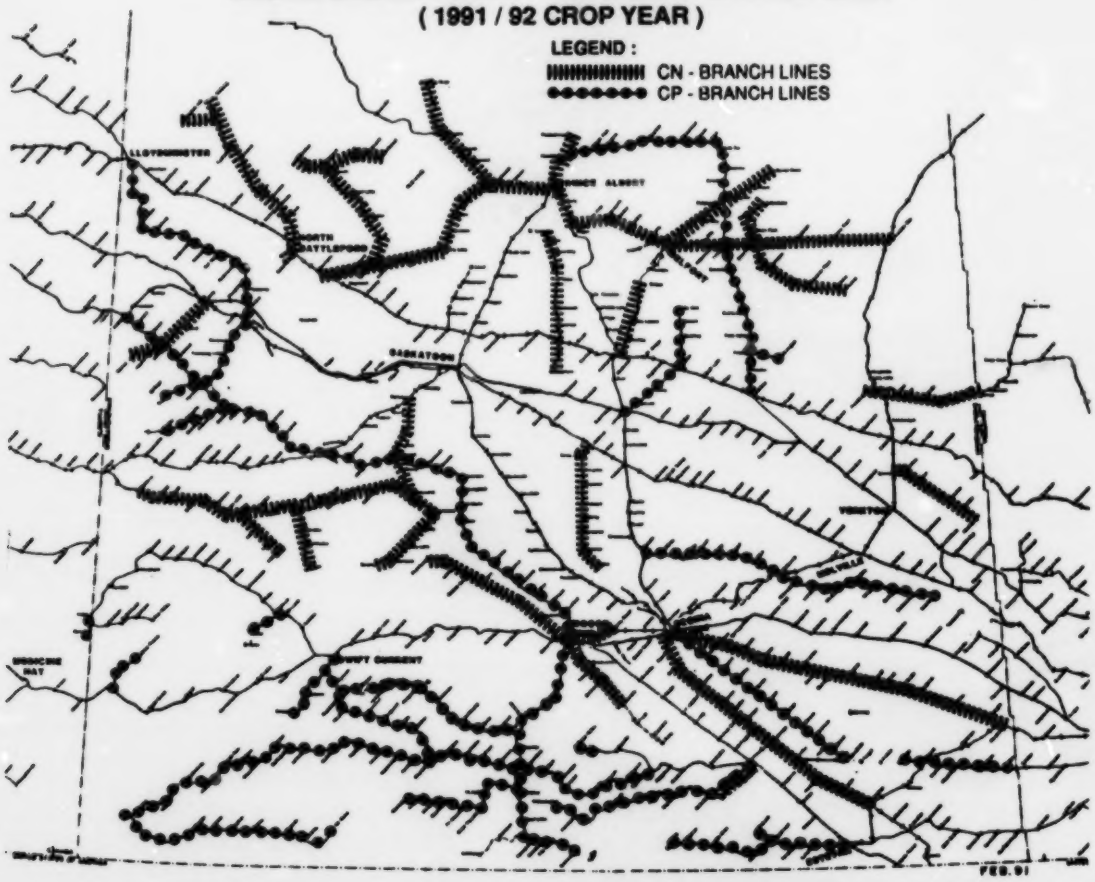
While Saskatchewan has the most extensive railway system of the three western provinces, it is a relatively modest system when compared to the geographic area it serves.

Shipment of grain from the primary elevator is regulated through the allocation of railway cars, a responsibility of the Grain Transportation Agency. Cars are allocated by train runs based on several factors including sales requirements and the volume of business done by each elevator company. The elevator company then allocates cars as it deems necessary between elevators it operates on the train run.

KILOMETERS OF RAIL BY PROVINCE



SASKATCHEWAN GRAIN - DEPENDENT BRANCH LINES
(1991 / 92 CROP YEAR)



SOURCE: NATIONAL GRAIN TRANSPORTATION AGENCY

Grain is loaded into over 19000 hopper cars dedicated to the movement of prairie grain. Of these, 15000 cars are provided by the federal government; 2000 by the Canadian Wheat Board and 1000 each by the government of Alberta and the government of Saskatchewan. The railways supply additional equipment as required including a dwindling supply of box cars. Once loaded, cars are picked up by the railways and moved in relatively small train load lots to a distribution yard.

The average cost of the rail collection function is 12 cents/bushel comprised of 8 cents for line related costs and 4 cents for volume related costs.

Main Line Rail System

The second component of the grain handling and transportation system is the main line rail system. Blocks of grain received from the primary elevators are forwarded to distribution yards. Here grain trains or blocks of grain cars or mixed trains are sorted and assembled for movement to individual ports, either directly or through classification yards. At these yards, additional car switching is performed to assemble more homogeneous grain trains, which are then dispatched to the main yards at one of the four regional ports. The entire trip from a distribution yard in Saskatchewan to the port terminal yard will normally cover more than 1600 kilometres.

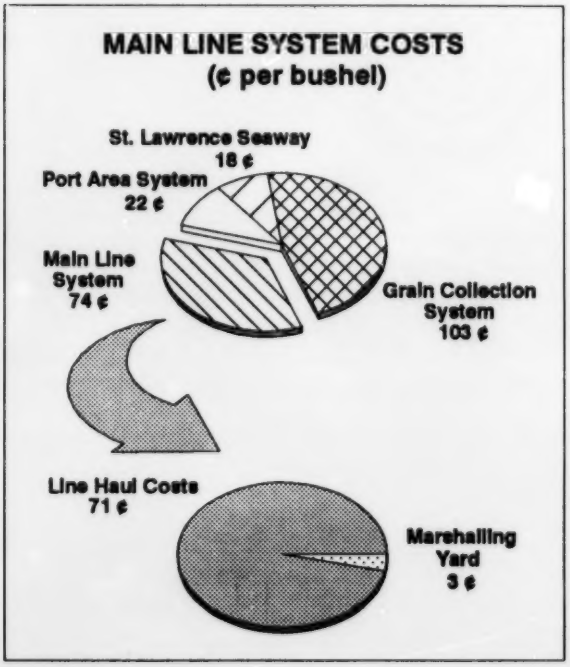
The main line rail movement is the second largest component at a cost of approximately 74 cents/bushel. The additional cost of marshalling at the various yards amounts to less than 3 cents/bushel.

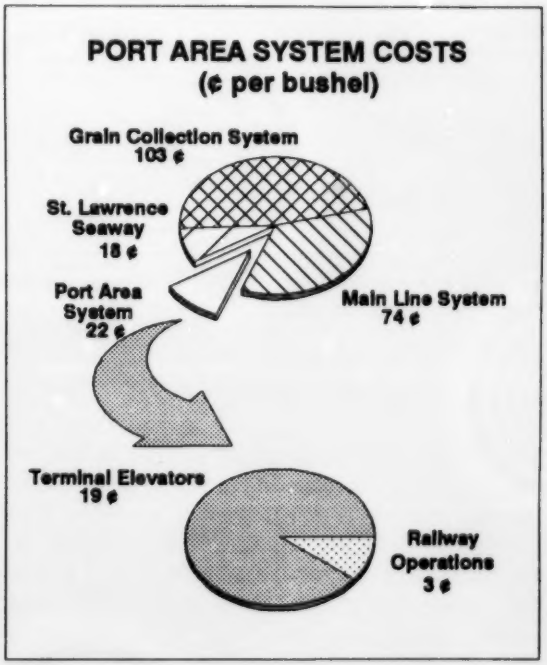
Port Area System

The third component is the port area system. Almost all grain exported from Canada passes through a terminal elevator located at Prince Rupert or Vancouver on the west coast; Churchill on Hudson Bay; or Thunder Bay in Ontario. At these terminals grain is weighed, graded, cleaned, stored and, when required, loaded into ocean going vessels.

Grain trains arriving at the port terminal yards are disassembled and cars switched into blocks destined for individual terminal elevators. This process involves some switching between railways since both railways do not have access to all terminal elevators.

A rail car pooling system allows grain cars to be sent to any elevator regardless of the grain company and the railway which originated the grain in the country. This car pooling system has assisted in improving the efficiency by significantly reducing interswitching, interchanges and service delays.





While the average cost of terminal switching is over 2 cents/bushel, the cost at individual ports varies from a low of approximately 0.5 cents/bushel at Prince Rupert to nearly 3 cents/bushel at Vancouver and Thunder Bay. Terminal elevator costs average over 19 cents/bushel.

The total cost of the port area system is substantial at almost 22 cents/bushel. In addition delays can result in substantial vessel demurrage costs of 0.5 cents/bushel/day.

Grain from cars presented by the railways is unloaded and elevated into the workhouse where it is cleaned and/or dried, stored in bins according to grain grade and type, and subsequently loaded into vessels. Screenings removed in the cleaning process are used for livestock feed.

Port of Churchill

The Port of Churchill is located at the mouth of the Churchill River on the western shore of Hudson Bay. It is Canada's only northern seaport. The port exports wheat and barley and serves as a resupply terminal for arctic communities.

Grain exports from the Port of Churchill have ranged from 50000 tonnes in 1988 to 750000 tonnes in 1977. Exports in 1991 were about 233000 tonnes. The volume of grain shipped through Churchill is dependent upon the marketing efforts of the Canadian Wheat Board. Northern resupply cargoes have averaged 20000 tonnes per year.

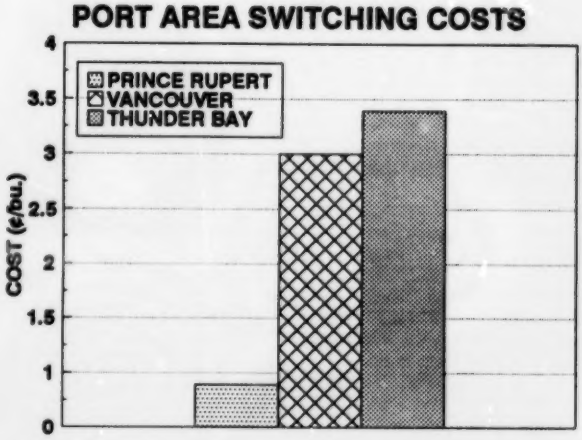
The terminal elevator costs of 21 cents/bushel are approximately 2 cents/bushel higher than other Canadian ports due to higher energy and labour costs.

As part of the federal commitment, subsidies are paid on the Churchill rail line from Thompson to Churchill and average approximately $4.6 million per year.

As the Port of Churchill is operated for the national interest, Saskatchewan has maintained that its costs be paid for by the federal government and not by farmers.

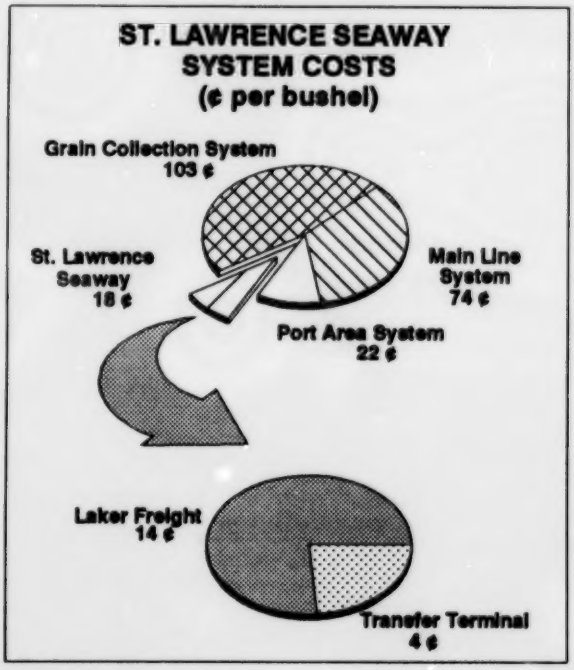
St. Lawrence Seaway System

The final and smallest component of the grain handling and transportation system is the St. Lawrence Seaway. The vast majority of grain moving eastward through Thunder Bay is shipped via lake vessel to the lower St. Lawrence where it is transferred to ocean going vessels for overseas destinations. The volume of grain shipped through Thunder Bay is primarily dependent on world grain markets and the marketing efforts of the Canadian Wheat Board. Since 1985, grain exports through Thunder Bay have fluctuated from a high of 13 million tonnes to a low of 6 million tonnes.



The grain is delivered to 27 transfer elevators located at 20 points along the St. Lawrence and re-loaded into ocean going vessels as required. The type of lake vessels used varies depending on availability, backhauls, etc. In 1989/90 there were 90 Canadian vessels registered to move grain.

The Seaway accounts for about 10% of the total freight bill when the costs are averaged over the entire volume moved by the grain handling and transportation system. Laker and transfer elevator costs are about 14 cents/bushel and 4 cents/bushel respectively.



Proposed Changes

The federal government is proposing a number of "efficiency" measures that are really changes to long standing grain transportation policies. These changes, as currently proposed, will restructure the grain handling and transportation system for the benefit of the railways and the federal government, at the expense of rural Saskatchewan. Some of the key proposals include:

1. Fast tracking the abandonment of branchlines;

2. Placing an arbitrary 8¢ per bushel penalty for farmers delivering to certain selected branchlines;

3. Reviewing the Port of Churchill.

IV

SYSTEM EFFICIENCIES

The Concept

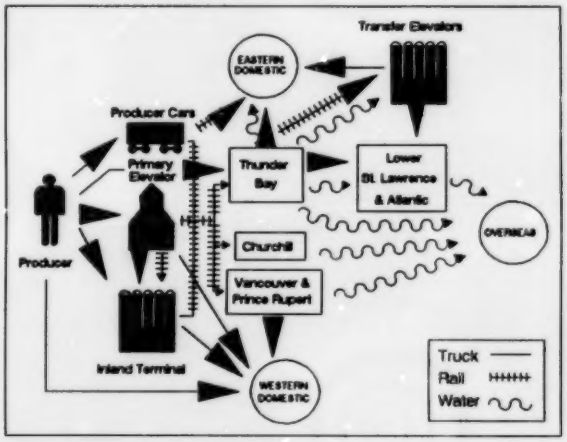
Grain handling and transportation costs represent a major portion of product value. For example, in 1990-91, grain handling and transportation costs from a primary elevator at Southey, Saskatchewan to export position at Montreal constituted approximately 45% of the value of wheat, 65% of barley. With the downward pressures on world grain prices resulting from the world grain subsidies war, the comparable figures for 1991-92 could reach 70% for wheat and over 90% for barley based on initial prices.

New policy initiatives for improved efficiencies are being discussed. These initiatives should facilitate the restructuring of our current grain handling and transportation system to a modern, efficient and effective system which will enhance our competitiveness into the 21st century.

In developing policies and initiatives for system improvements, it is essential that the entire grain collection, handling and transportation system be considered. It is not just a question of optimizing the rail and elevator systems, or the port and seaway systems. It includes costs associated with other components of the grain handling and transportation system such as farm storage, handling, trucking, commercial trucking and road impacts.

To improve the efficiency of one sector at an equal or greater expense to another is not efficiency but simply a transfer of costs from one participant to another. The ultimate objective must be a reduction in total cost.

Change is essential. Opportunities exist to improve and modernize the system, taking into account the needs of ***all stakeholders***, not just a selected few.

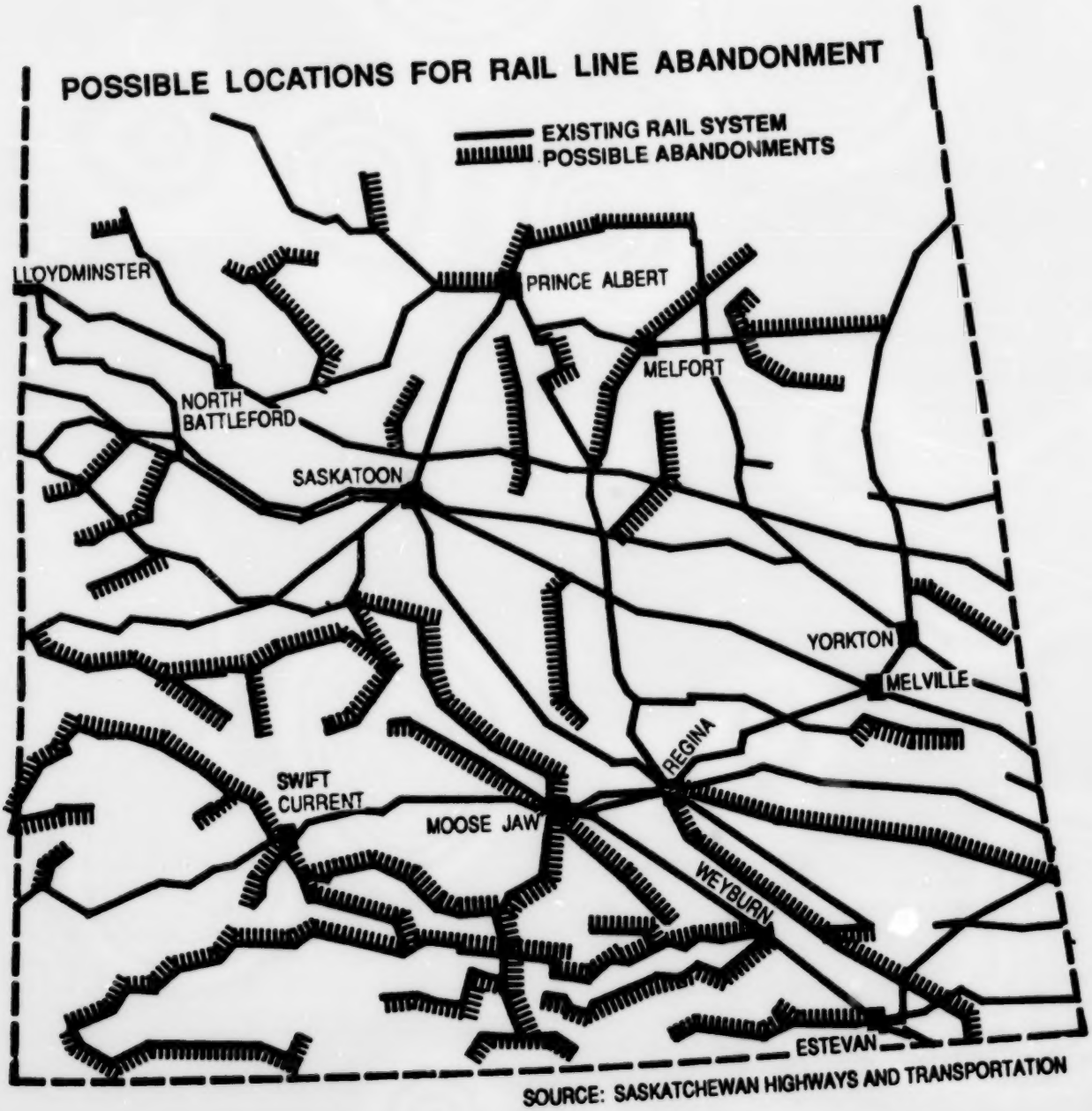


Implementation of the efficiency measures being proposed by the federal government will increase costs substantially to producers and road authorities with relatively few off-setting benefits.

Branchline abandonment and elevator consolidation could occur at an extremely rapid pace. It is reasonable to expect the loss of 3000 km of branchline by the year 2000. This could easily increase to 4000 km when combined with a method of payment change.

Impact on the Saskatchewan Taxpayer

Costs will be transferred from the federal government, the railways, and the grain companies to producers losing rail service, provincial and municipal road authorities, and communities losing rail service. Approximately $48 million annually will be removed from the total pool of resources available for providing transportation infrastructure. Much



SOURCE: SASKATCHEWAN HIGHWAYS AND TRANSPORTATION

of the secondary paved highway system would probably have to be reverted to gravel. A substantial portion of the municipal road system will be unable to cope with the heavy truck traffic.

Implementation of all the changes that are currently being proposed by the federal government will have a dramatic effect on road authorities in Saskatchewan. If the 4000 km of branchlines are abandoned, annual highway construction and maintenance costs related to hauling grain from farmgate to primary elevators is expected to increase to 10 cents/bushel or a total cost of $65 million annually. Municipalities will also face large increases.

Impact on Grain Producers

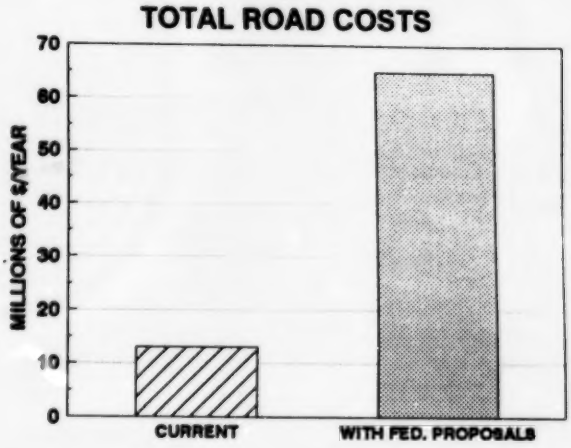
1. Trucking Costs

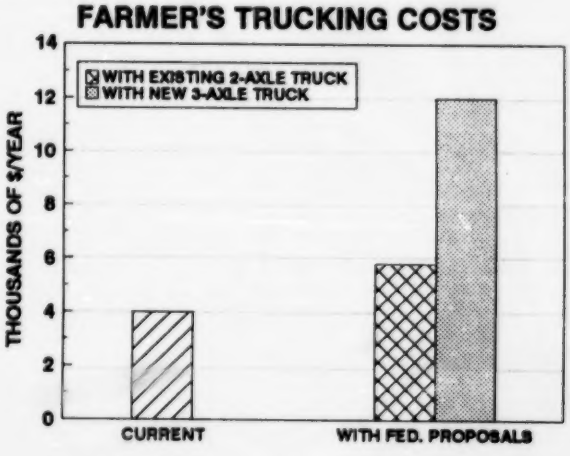
If 4000 km of the branchline system are abandoned, it will increase the distance a farmer must haul grain from an average distance of 15 km to 65 km. This will have a significant impact on trucking costs. Under the current road/rail grain transportation system a producer with a 2 axle truck spends 21 cents/bushel hauling grain to the elevator. After the branchline system has been rationalized (4000 km abandoned) trucking costs will increase to 47 cents/bushel assuming a producer can still use his existing 2 axle truck. In addition to a significant cost increase a producer would also spend at least 18 days a year hauling grain. With delays at the elevators due to line ups this may increase to between 22 and 25 days per year.

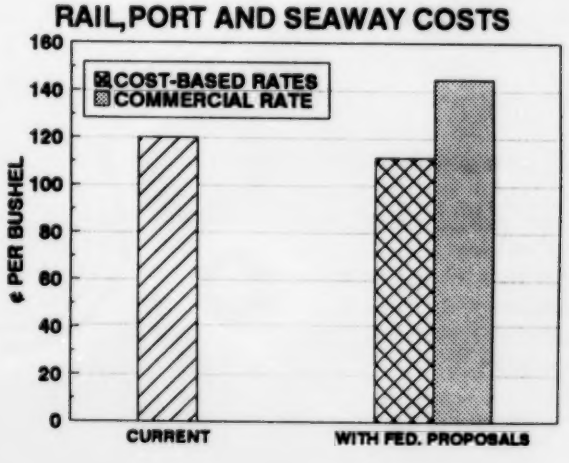
After abandonment, some producers will be forced to change their method of hauling grain to elevators. One option is to trade up to a new 3 axle truck which will increase grain hauling costs to 94 cents per bushel. Another alternative is to use commercial truckers when shipments are large enough and round out their quotes with their existing 2 axle truck. In addition to losing control over a very important part of their farming operation a producers trucking costs would also increase to 34 cents per bushel using this method of grain transportation to haul to primary elevators.

2. Rail Freight Costs

Grain freight rates could reduce by perhaps 3 cents/bushel to 4 cents/bushel. However, railways have already indicated that a method of payment change cannot proceed without an elimination of the regulated freight rate system. If they are successful in their lobby, commercial rates, including confidential contracts, will become the order of the day. Based on the experience of other Saskatchewan shippers such as potash and sodium sulphate, which are captive to the rail mode, producers will be subject to substantial increases in freight rates. Freight rates for grain could increase by 25 cents/bushel.







Producers would lose the protection against high freight rates during periods of low grain prices or high inflation. If the federal government were to renege on this commitment, the cost to producers could easily reach 19 cents/bushel by the year 2000.

V

PAYMENT OF THE CROW BENEFIT

Introduction

Five options for paying the Crow Benefit have been put forward by the federal government for discussion during their public consultations. These include:

- Status Quo (pay the railways);
- Phase-out with no compensation;
- Ongoing payments to producers;
- Pay-out to producers; and
- Safety net proposal.

A change in the method of payment to "pay the producer" would affect both farm income and farm debt.

Saskatchewan producers net income would decline following a change in the method of payment, due to a reduction in gross revenues from crop production and the effects of dilution. This would intensify the current farm income crisis.

Farm debt problems would also become more serious. The equity position of Saskatchewan producers, which includes capitalization of WGTA subsidies into land values, would be weakened from a decline in land values following a change in the method of payment.

Proposals for Payment of the Crow Benefit

1. Status Quo (Pay the Railways)

The Crow Benefit payment would continue to be made to the railways on an ongoing basis. The WGTA subsidy would continue to be based on eligible exports. Producers would pay an increasing share of rail freight rates over time, while the federal government's proportionate share would decline.

2. Phase-Out With No Compensation

Annual payments of the Crow Benefit would be reduced over a specified period, for example 10 years, until they were eliminated. There would be no compensation to producers who would gradually pay the entire freight rate over time. If the phase-out period was for 10 years, Saskatchewan shippers' costs would increase by approximately $40 million per year.

3. Ongoing Payments to Producers

Payments of the Crow Benefit would be paid to producers on an ongoing basis, following termination or phasing out of payments to the railways. Producer freight rates would increase to the full WGTA rates. Several proposals for ongoing payments to producers exist, based on historic shipments, eligible net sales or productivity-adjusted acreage. Dilution, which is discussed in section on dilution below, would be an issue under this option. The railways argue that the distance-related rate structure must be replaced with a commercial rate structure.

4. Pay-Out to Producers

The Crow Benefit would be paid to producers in the form of a bond or annuity for a specified period, following the elimination or phasing out of payments to the railways. Producer freight rates would increase to full WGTA rates. Different terms, ranging from 15 to 25 years, have been proposed for the bond or annuity. Several proposals call for a transition period to reduce impacts on transportation infrastructure and farming operations. Dilution would be an issue under this option. Pressure to implement a commercial rate structure could also occur.

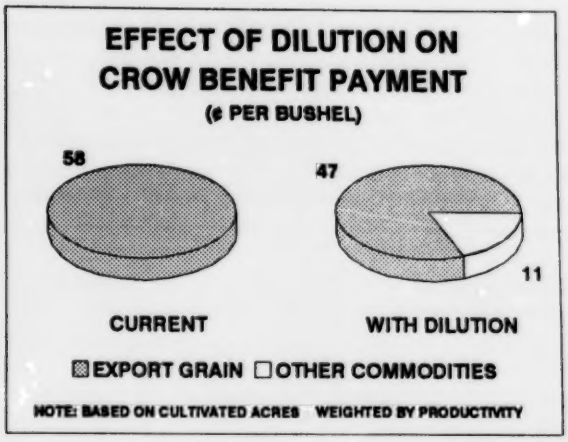
5. Safety Net Proposal for Payments to Producers

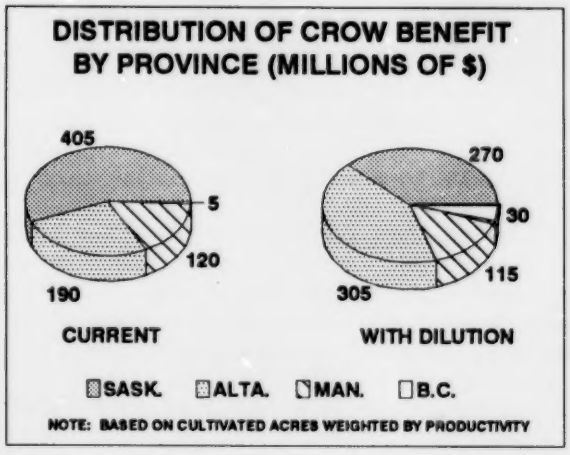
The Crow Benefit would be paid to producers through a safety net account similar to NISA. Producers would pay full WGTA rates, following the termination or phasing out of subsidy payments to the railways. Payments into producer accounts would be based on distance and either historic marketings or production. Pay-outs would be triggered by a mechanism relating freight costs to net income or grain prices, and would be taxable. Producer accounts would be non-transferable upon retirement from farming or death. No provision would be made for dilution. Distance-related rates could be replaced with a commercial rate structure.

Dilution

The Crow Benefit is paid only on grain moved to port by rail. Other methods, such as total acreage, have been proposed. If the Crow Benefit was paid on the basis of total acreage instead of export grain, other commodities would receive the subsidy. As a consequence, the amount available for grain moved to port by rail would be lower. This is known as "dilution". A reduction of 11 cents per bushel could be expected if payment is based on cultivated acres weighted by productivity.

Studies done for Saskatchewan have estimated the impact of different methods of distribution on the amount of Crow Benefit received by province as follows: Manitoba: 13% to 19%; Saskatchewan: 38% to 56%; Alberta: 27% to 42%; and British Columbia: 0.6% to 4%.





Impact on Production Shifts

Two production shifts would occur if WGTA subsidies were paid to producers through ongoing payments, a pay-out over a specified period, or a safety net program.

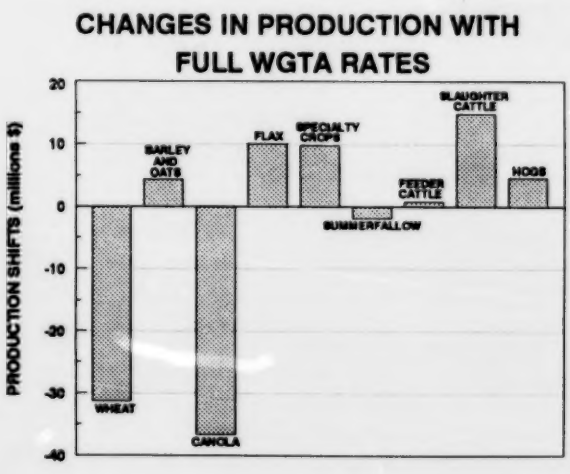
Grain production would shift in response to declines in farm gate prices from increased transportation costs. Prices would fall for all grains, depending on the unit value of the crop and the amount of freight rate increase absorbed by the market.

Livestock production could increase in response to declines in feed grain prices. However, benefits associated with increased livestock production would not offset the decline in gross revenues from grain production.

Studies done for the provincial government have found that Saskatchewan producers would not benefit from a reallocation of resources under different method of payment options. These studies also conclude that the current method of payment does not distort production decisions in the Saskatchewan agriculture sector.

Production shifts will not be significant because a change in the method of payment is expected to have a similar effect on all grain prices. Changes in cropping enterprises would occur at a slower rate than in the other Prairie provinces, because Saskatchewan's land base is best suited to crop production for export markets. New technologies and investment in processing infrastructure could lead to greater production shifts in certain regions, especially in specialty crops and livestock.

The value of wheat production, currently averaging $1.5 billion, may reduce by 2% or $30 million. This slight reduction is due to the lack of cropping alternatives and greater certainty associated with growing wheat relative to other crops.



Barley production would increase modestly due to increased demand for feed grains from the livestock sector.

Canola production would decline primarily because freight cost increases would be greater for canola than for wheat. Differences in freight costs would occur because Saskatchewan canola is priced for export out of Vancouver, while most of Saskatchewan's wheat is priced, for export out of Thunder Bay. Freight rates to Thunder Bay are lower than those to Vancouver for most points in Saskatchewan.

Flax and specialty crop acreages would increase because market value relative to freight charges is high.

Proponents of change in the method of payment argue that the decline of farm gate prices of grain would be proportionate to the increase in freight rates. However, the drop in farm gate prices may not exactly equal the increase in freight rates because the domestic market may absorb part of the increase in freight costs. The level of market absorption will depend on the impact of Canadian production on world prices and the effect of price changes on domestic demand.

Impact on Agricultural Processing

Opportunities may exist to expand industries in the processing sector, following a change in the method of payment. A decline in grain prices resulting from higher producer freight rates could provide lower priced grain to certain agricultural processing industries.

Studies have predicted that flour milling, specialty crop processing, and meat processing would expand modestly with a change in the method of payment. Other processing industries such as canola crushing, malting, and inland grain cleaning would also benefit.

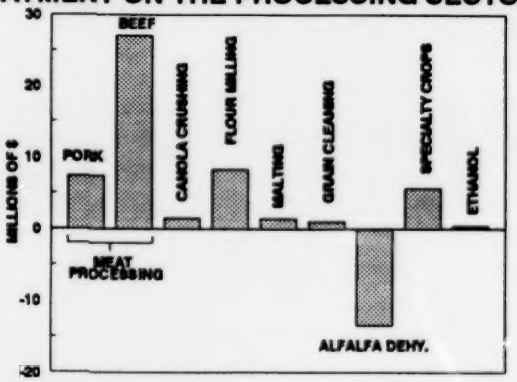
Some processed goods could be seriously affected by a change in the method of payment. For example the alfalfa dehy industry could expect freight cost increases of up to $27 per tonne.

A number of other factors not directly related to the method of payment influence development and diversification of the processing sector. These include:

1. Market demand trends;
2. Access to domestic and world markets;
3. Infrastructure and incentives in other jurisdictions;
4. Availability of investment capital; and,
5. Producer attitude regarding diversification opportunities.

Studies have concluded that expansion of the processing sector following a change in the method of payment is expected to have minimal impact on the Saskatchewan economy, amounting to less than one quarter of one percent of the gross domestic product.

IMPACT OF A CHANGE IN THE METHOD OF PAYMENT ON THE PROCESSING SECTOR



Impact on International Trade

Potential reductions in agricultural subsidies are being examined in the current round of negotiations on the General Agreement on Tariffs and Trade (GATT). The WGTA was identified as an internal support measure for producers in Canada's submission to the GATT negotiations. The Canadian position is that the WGTA does not provide export assistance or distort trade.

Impact on the Grain Handling and Transportation System

The most obvious effect of an method of payment change will be a rapid acceleration of branchline abandonment and elevator consolidation.

This will be the most devastating in Saskatchewan, which must rely on the branchline system to collect grain. The grain growing areas of Alberta and Manitoba are relatively well served by the main lines to perform this grain collection function.

A secondary effect will be the eventual move to a deregulated system of grain freight rates. The railways have indicated that payment to producers must be accompanied by a removal of regulated, cost based rail rates to a commercial environment. Saskatchewan, which is totally captive to rail transport, could expect the greatest increase in freight rates.

A third effect is the removal of funds currently in place to maintain a modern rural transportation infrastructure. In Saskatchewan, the combined annual budgets of the provincial road departments and the rural municipalities is over $300 million. A further $47 million is mandated through the WGTA for the maintenance of a branchline system. A method of payment change would remove approximately 14% of the funds spent on rural transportation infrastructure.

VI

OPPORTUNITIES FOR REDUCING COSTS

Introduction

The grain handling and transportation system is comprised of a number of separate components. Some receive a much larger share of the total system costs than others. For significant savings to be realized, efficiencies in these segments of the system must be pursued. The opportunities for cost reduction to be realized by various components of the system are discussed below. The list is not intended to be exhaustive. Rather, it is intended to give the reader an indication of where costs can be reduced.

Branchline Rail System

The railways, some grain companies and organizations such as the Senior Grain Transportation Committee and the Western Canadian Wheat Growers Association have promoted the abandonment of branchlines and the consolidation of elevator facilities as the most effective way to reduce the cost of handling and transporting grain. Such measures reduce costs for the federal government, the railways, the grain companies and producers in general through a slightly lower overall freight rate, but transfers costs to those producers and communities losing rail service and to road authorities.

Recent experience has proven that in some areas the following concepts have the potential to reduce costs without the adverse impacts that result from total abandonment.

1.Shortline railways are a lower cost/better service system than conventional rail. Savings of one third to one half of conventional railway costs have been realized.

2.On some stub end lines, road/rail technology developed in Saskatchewan has proven very effective.

3.Off-track elevators combined with commercial trucking to a transfer terminal has the potential to reduce costs if the highway route between them is a sound pavement structure.

4.Producer cars can reduce a farmers' costs by 22 cents/bushel, less the cost of car loading.

Main Line Rail System

Further opportunities for reducing mainline rail costs exist in the following areas:

1.Reducing car cycle time from the current level of over 20 days to a realistic target of 13 to 15 days could produce annual cost savings in excess of $30 million.

2.Embracing new technology as it develops

3.Reducing train crew size.

4.Increasing train length and car payloads.

5.Complete interchangeability of the government hopper car fleet.

Regulatory System

Changes in rail regulations would reduce costs to farmers. Some of these changes are identified below:

1.Grain shipments contribute 20% of volume related costs to railway overheads. Reducing this contribution to a more reasonable level such as 15% would generate an annual saving of $42.5 million, or 4 cents/bushel.

2.Grain rates include a cost component for tax. This should be removed from the payment CN receives for grain because they do not pay income taxes. This annual overpayment is estimated at over $30 million.

3.Use more current grain forecasts to set annual rail freight rates.

4.Capture railway productivity improvements through more frequent cost reviews.

Ports

Several suggestions have been put forward for improving the efficiency of ports including:

1.A continuous work week for grain terminals.

2.Increasing the deliveries of grain cleaned at high throughput elevators.

3.Encouraging further car pooling and interchanging of grain cars.

4.Setting up a separate railway to service the ports at Vancouver and Thunder Bay.

5.Improving the coordination among affected participants at ports.

VII

PRICE POOLING

Introduction

The price the Canadian Wheat Board (CWB) pays to grain farmers is the price that it receives at export position less its expenses incurred in buying and marketing grain. In doing so, the CWB distributes their expenses among all grain producers in a manner that does not cause any geographical cross-subsidization (that is, higher prices to a particular group of farmers due to their location relative to port). This system is referred to as price pooling.

Present System

In the past, grain exports through St. Lawrence ports were higher than through Vancouver and premiums were paid for grain at Montreal. The premium was approximately equal to the transportation charges from Thunder Bay to the St. Lawrence terminals. Consequently, the CWB was able to pay the St. Lawrence Seaway charges themselves and pay prairie farmers the same grain price whether it was transported to Vancouver or Thunder Bay without any geographical cross-subsidization.

Producers have the lesser of freight costs to either Vancouver or Thunder Bay deducted at their primary elevator. Currently, Seaway charges included in the pooled costs total about 18 cents/bushel.

Proposed Changes

Changing markets have resulted in higher grain volumes being shipped through Vancouver than through St. Lawrence ports and grain prices have been approximately the same for both ports. Since the CWB still pays the St. Lawrence Seaway charges from Thunder Bay to Montreal and all farmers still receive the same price for their grain, farmers shipping through Vancouver have been cross-subsidizing farmers who ship through Thunder Bay.

Two options for changing CWB price pooling have been proposed:

1. CWB Pooling Proposal (1985)

The CWB would determine its expenses related to marketing and selling grain for price pooling purposes based on Vancouver and Montreal rather than Vancouver and Thunder Bay. Rail freight charges for all producers would be determined through Vancouver because freight costs to the west coast would be lower at every point on the Prairies. Most producers east of Scott, Saskatchewan would be faced with higher freight rates.

2. National Grains Bureau (NGB) Proposal (1989)

Montreal rather than Thunder Bay would be used for price pooling purposes. Payment of freight costs would be adjusted to reflect the capacity of west coast export terminals, which is about 19 million tonnes per year. Deductions from initial payments for producers west of Regina would be based on rail freight rates to Vancouver, because the west coast capacity limits westbound movements. Grain shipments from points east of Regina would pay a higher freight rate than currently paid.

Impact of Proposed Changes

Redistribution of income from producers in the eastern Prairies to those in the western Prairies would occur under the CWB and NGB pooling proposals. Producers

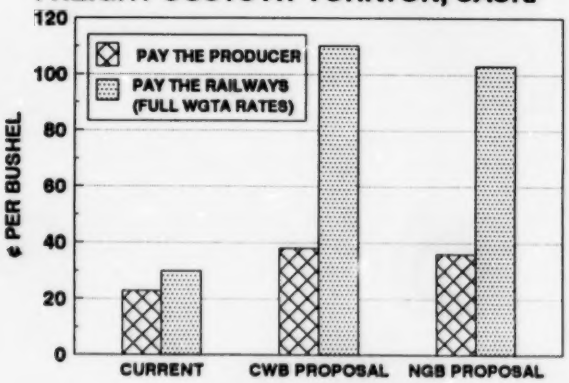
in western Saskatchewan and Alberta would benefit. Net returns of Saskatchewan producers would decrease by $2 million and $11 million under the CWB and NGB proposals, respectively. The cost to Saskatchewan producers would be greater under the NGB proposal than under the CWB proposal.

A change in the method of payment would increase the cost to Saskatchewan farmers because freight charges would be based on full WGTA rates. Costs to Saskatchewan producers would increase by $12 million and $20 million under the CWB and NGB proposals, respectively.

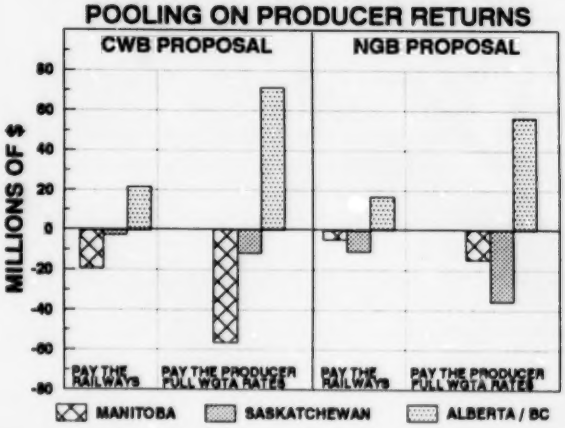
Opportunities for Reducing Costs

An option for reducing higher freight costs for producers in eastern Saskatchewan and Manitoba could involve the use of the Port of Churchill along with Montreal and Vancouver for pooling CWB costs. Inclusion of Churchill would reduce income transfers from the eastern to western Prairies.

IMPACT OF A POOLING CHANGE ON FREIGHT COSTS AT YORKTON, SASK.



IMPACT OF CHANGE IN PRICE POOLING ON PRODUCER RETURNS



VIII

MINIMUM COMPENSATORY RATES (MCRs) FOR CANOLA PRODUCTS

Introduction

Canadian oilseed production is concentrated in western Canada, which accounts for more than 70 % of national output. Crushing capacity is evenly balanced between western and eastern Canada, and is currently under-utilized. The volume of oil shipped under MCRs has been relatively stable. Canola meal tonnages have declined in recent years.

The majority of value-added oil refining is located in eastern Canada, which accounts for about two-thirds of domestic deodorized oil production. The market share of canola oil has gradually increased relative to other vegetable oils such as soybeans. Canola meal's market share has remained stable.

Exports to the U.S. are expected to increase with the elimination of tariffs on canola products in July, 1992, under the Canada-U.S. Trade Agreement. U.S. demand for canola oil is forecasted to increase by up to 50 % by the mid-1990s. Canola oil exports to the U.S. currently total 160000 tonnes annually. Canadian canola oil faces competition from heavily subsidized European product in the U.S. market, which makes it difficult to predict future market opportunities. Investment in the western crushing industry will improve its competitive position in the U.S. market.

Access to the Japanese market is currently restricted to canola seed, because of high tariffs on imported canola products by Japan. Canola seed exports to Japan total $600 million annually. A progressive reduction in Japanese tariffs would be beneficial for the Canadian canola industry.

Exports of canola oil to other offshore markets have declined in recent years, due to competition from tropical oils and U.S. and European Community subsidy programs. Offshore canola meal markets are available to western crushers, but they must compete with low-priced product from Asia and South America.

Present System

Minimum Compensatory Rates (MCRs) provide low freight rates for canola products moving east of Thunder Bay by rail, to facilitate development of the western crushing industry. MCRs are regulated freight rates that compensate railways for the variable costs of transporting canola oil and meal east of Thunder Bay, for domestic and export markets. Freight costs under MCRs total about $12 million annually.

Proposed Changes

Pressure from the eastern crushing industry and soybean growers to eliminate MCRs has grown, to enhance their competitive position with western crushers and soymeal imports from the U.S.

The railways want to replace MCRs with commercial rates, to reduce administrative costs and optimize profits.

The western canola industry and the three Prairie provinces support retention of MCRs, due to limited export opportunities for canola products. If MCRs were eliminated, market share in eastern Canada would be reduced.

Impact of Proposed Changes

Modification of MCRs would increase freight rates for canola products. Freight costs for canola products could increase by up to $5.40 per tonne. Gross margins of western crushers would decline by an estimated 18 %. This would result in significant loss of market share in eastern Canada.

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IMPACT ON RURAL COMMUNITIES

Introduction

Changes in the grain handling and transportation system could impact significantly on Saskatchewan producers and their communities. Agricultural transportation policies play an important role in community development by providing producers with convenient and affordable access to domestic and world markets.

Acceleration of branch line abandonment could limit future economic development opportunities in rural communities. The pace of branch line abandonment would increase in Saskatchewan if proposed system efficiency measures were implemented and the method of payment of WGTA subsidies were changed. Transportation infrastructure is an important factor in the development of agricultural production and processing facilities, agricultural services, and other businesses.

Modernization of the grain transportation system can contribute to the revitalization of rural communities through the development of cost-effective grain collection services. Alternatives to conventional rail service on grain-dependent branch lines can help control increases in transport costs and generate new employment and other economic activity in rural communities. Business opportunities associated with the development of alternative grain collection services include the provision of goods and services to replace the loss of railway and grain elevator jobs and services.

A 1990 Deloitte Haskins & Sells study found that any change in the method of payment of WGTA subsidies, Canadian Wheat Board (CWB) price pooling, and the branch line abandonment process will have significant social and economic impacts on rural communities.

Restructuring of the rail and road networks to improve the efficiency of the grain handling and transportation system will affect the viability of some rural communities. Some producers and their families will be negatively affected by changes in agricultural production patterns and higher transport costs. The Deloitte Haskins and Sells study concluded that there will always be winners and losers as a result of rationalization of the grain transportation system.

Producer Concerns

Saskatchewan producers believe existing branch line abandonment procedures do not effectively meet their needs or support rural communities. A study done for the Province found that more than 80 % of Saskatchewan producers are dissatisfied with the current rail line abandonment process. Producers also strongly oppose acceleration of branch line abandonment to reduce rail costs. Seventy per cent of producers believe that rail line closures should be co-ordinated with upgraded municipal and provincial road networks, to reduce impacts on rural communities.

A 1976 University of Regina survey, concluded that rail line abandonment would have serious impacts on rural communities. These included:

1.Reduction in consumer expenditures totalling $120 million in the 124 communities studied;

2.Increased business failures in affected communities; and,

3.Increased depopulation of rural areas

Erosion of Local Tax Base

Rail line abandonment affects the local tax base, particularly in smaller communities where railway and elevator properties are significant generators of tax revenue. Urban municipalities require property taxes to provide funding for community services. Rural municipalities not only experience a tax loss when rail lines are abandoned, but must allocate more funds to road construction and maintenance to accommodate increased grain hauling by truck.

The capability of many rural municipalities to finance additional road upgrading and maintenance work is constrained, because their average annual road budgets are only $360,000. The cost to construct one km of road to a conventional paved standard is $385,000. Long-term effects on road infrastructure from the use of larger trucks hauling longer distances will also have major financial consequences for municipal and provincial governments.

A change in the method of payment of WGTA subsidies would reduce land values, which would affect municipal tax revenues. This may constrain local and regional economic development opportunities.

Land Values

The impact on land values depends on the criteria used for distributing the Crow Benefit. Land values could decline when compensation to producers does not offset freight rate increases as a result of dilution. Studies have estimated that land values could decline by 12% to 17% immediately under the phase-out without compensation option. This could result in an annual loss in equity of $180 million by Saskatchewan producers. Smaller decreases would occur under the pay the producer option. The decline in land values could be significantly greater in the long-term, depending on production shifts and transport adjustments. In addition, acceleration of branchline abandonment, following a change in the method of payment, would reduce land values further in the affected areas due to increased distances to delivery points.

Business Impacts

Agricultural service businesses such as fertilizer, chemical and feed suppliers have tended to relocate to alternative delivery points following elevator and rail line closures. Many communities already affected by rail line abandonment have suffered job losses. Despite some employment opportunities in commercial trucking, they have been unable to offset job losses in the railway and elevator sectors.

Reliance on Off-Farm Income

Reliance on off-farm income has increased with the decline in farm incomes in recent years. Rail service and other transport infrastructure supports business development in rural communities. This industrial activity generates jobs for producers and their families., which generates jobs for producers and their families. A recent study found that three-quarters of Saskatchewan farm families earn more from off-farm employment than from sales of farm production. Saskatchewan off-farm income is estimated to total almost $900 million annually.

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SUMMARY

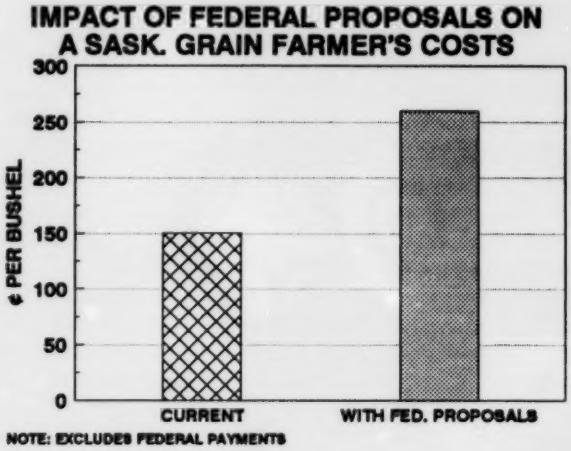
1.Grain transportation subsidies should continue to be paid to the railways. Commitments made by the federal government in the WGTA must be honoured. WGTA payments to the railways is the most effective way of enusring the federal government continues to honour its historical commitment to western Canadian farmers.

2.Transportation policy initiatives designed to reduce overall grain handling and transportation costs must consider all costs from the farm to market, to ensure that costs are not transferred from the federal government to producers and provincial and municipal governments. Improving the efficiency of one component of the grain handling and transportation system without considering impacts on other components may not result in an overall gain in efficiency, but rather transfer costs from one stakeholder to another. The ultimate objective must be a reduction in total cost.

3.A change in the method of payment would accelerate the rate of branchline abandonment and elevator consolidation and lead to replacement of regulated WGTA rates with commercial rates. Significant increases in grain freight rates could be expected based on the experience of other Saskatchewan industries.

4.Proposals in the federal discussion paper, Western Grain Transportation Efficiencies, would not maximize returns nor be equitable to producers. The primary objective of the federal proposals is elimination of low-volume rail branch lines. This would transfer costs to producers, municipal and provincial road authorities, and rural communities.

5.The current method of payment of grain transportation subsidies does not distort production decisions in the Saskatchewan agriculture sector. A change in the method of payment would result in limited agricultural diversification. Losses in net income from crop production would not be offset by increased net income in the livestock sector. This would intensify the current farm income crisis. The equity position of Saskatchewan producers would be reduced due to a decline in a land values.



6. Marketing costs and sales opportunities must continue to be shared by all producers. No changes in the CWB price pooling system are necessary.

7. MCRs for canola products should be retained until export opportunities in the U.S. and offshore markets such as Japan are demonstrated to be enough to offset the loss of market share of the western Canadian crushers in eastern Canada.